PEPSI-COLA COMPANY

Annual Report
1948

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Annual Report
1948
Pepsi-Cola Company

March 24, 1949

To the Stockholders:

The year 1948 required many adjustments in the Pepsi-Cola business in order to meet changing economic conditions. Early in the year, as a result of the Marshall Plan and the Rearmament Program, as well as of various other developments, it became clear that the cost of living and the cost of doing business were not likely to decline for some time. Therefore, means were adopted to gear your Company's activities to those conditions so that the Company and its bottlers could promote aggressively the sale of Pepsi-Cola at a fair price.

The steps that were taken will be described in detail later in this report. Many of them required considerable revamping of the Company's organization, operations, and merchandising program, as well as an increase by many of its franchised bottlers in the retail price of the 12-ounce bottle to a higher price level. It is interesting to note that in spite of the necessary changes, and notwithstanding the fact that many of the Company's bottlers were the only ones in their territories selling a soft drink at higher than the five-cent price, the product continued generally to maintain its position in the market. The number of cases of Pepsi-Cola sold in the United States in the year 1948

declined only about 9% from the previous year, which was a good volume year. We believe this record shows that the public in many areas was willing to pay a higher price for the big 12-ounce bottle of Pepsi-Cola, particularly in the home market.

FINANCIAL REVIEW

There is presented herewith a review of the operations of your Company and subsidiaries for the year 1948, together with a Consolidated Balance Sheet at December 31, 1948, and a summary of Consolidated Income and Earned Surplus for the year then ended, certified by Haskins & Sells, independent certified public accountants.

The consolidated net profit after all charges and expenses, but before deductions of reserves for United States and foreign income taxes for the year 1948, was approximately $5,111,769 as compared with $10,344,511 for the year 1947.

After providing for all taxes in the United States and foreign countries, the net income of your Company and its subsidiaries for the year 1948 was $3,152,817, or approximately 55 cents per share on the present outstanding Capital Stock. This compares with $6,769,834, or approximately $1.18 per share for the year 1947.

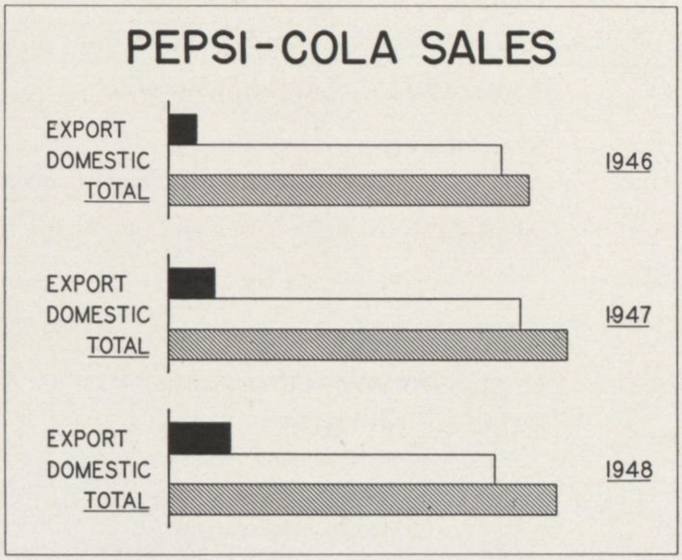
The decline in the net income of your Company was due to a number of factors. Late in 1947 your Company reduced the price of its concentrate to its franchised bottlers in order to assist them in meeting increased costs, and to help them through this transition period. This resulted in a concentrate cost per case to the bottlers for the year 1948 lower than at any time in the history of the present Company.

This reduction in income from the sale of concentrate, plus increasing costs and additional expenses incurred by the Company in order to maintain continued consumer acceptance while bottlers were readjusting their operations, together with the somewhat smaller volume of sales, resulted in the lowered net income.

Your management believes the steps that have been taken, and the funds that have been spent to build for the future, will prove to have been well worth while in their ultimate results in the years ahead.

FINANCIAL CONDITION

As may be seen from the Balance Sheet, at the end of 1948 the Company and its subsidiaries had approximately $10,000,000 in cash and Government securities, and was in very strong financial condition. Current assets exceeded current liabilities by about $11,420,000. During the year, your Company borrowed from the New York Life Insurance Company the sum of $5,000,000 at 3% per annum for a 15-year period, and a notice to that effect was sent to the stockholders. The purpose of the loan was to strengthen the financial position of the Company through this period, so that it could cope successfully with any possible contingencies that might arise, and could aggressively promote the sale and merchandising of its products. Up to the present time, none of this money has been used.



As you were advised in a letter to stockholders dated December 8, 1948, your Board of Directors deemed it prudent to omit the fourth quarter dividend. As previously pointed out to stockholders, the omission of this fourth quarter dividend was not caused by any provision of the loan agreement.

From the figures in this report, you will see that the net income of your Company and its subsidiaries amounted to $3,152,817. Cash dividend payments to stockholders for the year amounted to $2,444,720.

It is the hope of your Board of Directors that the various steps that have been taken to curtail expenses, and the various programs that have been initiated to improve sales and distribution, will permit the resumption of dividends during the year 1949.

CHANGES MADE DURING THE YEAR

New Pepsi-Cola plant in Yakima, Washington.

As previously mentioned in this report, it became evident early in 1948 that costs in the soft drink industry were going to continue to be high and that further increases in some of them, such as labor and various supplies, were indicated. In this connection, the following outline of the comparative conditions under which the Company and its bottlers operated in 1948 will be of interest to the stockholders:

1. Supplies and materials used by the Company and its bottlers had advanced considerably in price since the beginning of the war, as may be seen from the following:

	PRICE		*Percent*
	1939	*1949*	*Increase*
Sugar—pound	$0.0403	$0.0784	95%
Bottles—gross	2.87	5.35	86
Wooden cases—each	0.35	0.80	128
Trucks—1-Ton Diamond T	700.00	1500.00	114
Freight—per unit	6.58	11.50	75
Labor—average weekly wage in food industry	24.10	51.47	114

2. Soft drinks in general were the only product in grocery stores across the nation that continued to sell at the same price as before the war. Food products as a whole had more than doubled in price.

3. The net result of the general increase in costs, as illustrated above, was that the dollar had so depreciated in value, according to the Department of Labor, as to be worth in 1948 only about 58 cents compared with its pre-war value.

Consumers were paying on the average over 100% more for all the food products they were purchasing than they paid before the war. Such things as magazines,

street cars, buses, etc. had long since abandoned the nickel. There was, therefore, no basic reason why the soft drink industry should not also receive a fair price for its products to offset some of its increased costs.

New Pepsi-Cola plant in Charleston, South Carolina.

In order to face this situation realistically, Pepsi-Cola Company and many of its bottlers made the following changes:

1. The Company-owned bottling plants and many bottlers sold the big 12-ounce bottle at 30 cents for a carton of six, or at 6 cents per single bottle. Even at 6 cents per bottle, or 30 cents for a carton of six, they were still offering a much better buy, both in quantity and quality, than competition was offering at 5 cents for a small bottle or 25 cents for a carton of six.

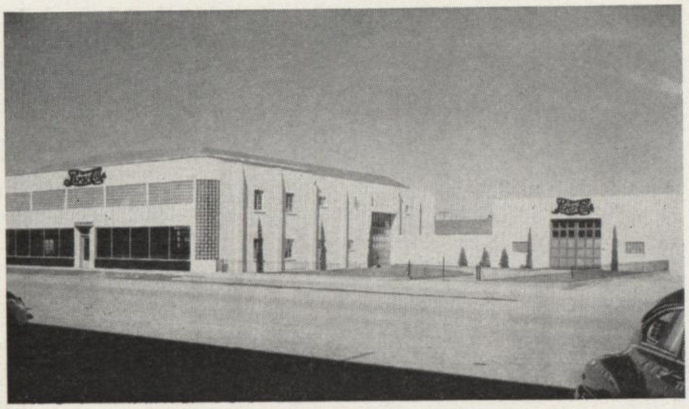
2. A new size bottle was made available, and was introduced by some of the bottlers. This new size is known as the Pepsi-8 (an 8-ounce bottle with color-applied label), designed especially for on-premise consumption, concessions, bottle vending machines, and the iced cooler trade. This size provided the bottlers with a bottle of Pepsi-Cola which they could sell profitably in the nickel market. Ball parks, race tracks, circuses, fairs, theatres, etc., where the big 12-ounce bottle was considered too large and too heavy for the vendors to handle, are now being actively covered and are for the first time promoting the sale of Pepsi-Cola.

3. The concentrate price, which was reduced in the latter part of 1947 so that the bottlers' concentrate cost was approximately 2 cents a case less than it had been in any previous year, was continued throughout 1948. The Company will continue to watch this situation carefully and will continue this price relief so long as in their opinion conditions warrant it.

4. A study was made of the costs of operation of all departments of the Company; and various programs and expenditures were eliminated or reduced where such action could be taken without seriously impairing the progress or standing of the Company. The costs of operation will continue to receive careful attention.

5. In the latter part of 1948, a Bottlers' Advisory Committee was formed to confer with the officers of the Company from time to time and to advise with them on operations and on special problems of mutual interest. The members of the Committee comprise elected representatives of the various regions, and also delegates-at-large.

RESULTS IN 1948



New Pepsi-Cola plant in Deming, New Mexico.

Stockholders will be interested in a brief outline of the results of the above steps:

1. Pepsi-Cola continued to maintain its position in the market place, as indicated by the fact that case sales in the United States in the year 1948 were only about 9% below the big year 1947, in spite of the fact that the price of Pepsi-Cola in many retail outlets was advanced over the nickel level and was higher than most of its competition.

2. At the end of 1948, the franchised bottlers who account for about 70% of Pepsi-Cola's volume in the United States, were selling the big 12-ounce bottle at a higher price.

3. At the end of 1948, franchised bottlers who account for over 60% of Pepsi-Cola's volume had either introduced, or were in the process of introducing, the Pepsi-8 so as to have Pepsi-Cola for on-premise consumption at a nickel.

4. At the end of 1948, the number of franchised bottlers in the United States was 478, compared to 482 in the previous year. This slight change was due for the most part to consolidation of several franchised territories.

5. During the year 1948, many Pepsi-Cola bottlers not only strengthened their operations, but expended considerable money in increasing their manufacturing and bottling facilities, as may be seen below:

NEW BOTTLING PLANTS BUILT IN THE UNITED STATES

ALABAMA
- Gadsden

CALIFORNIA
- Redding
- San Bernardino
- Watsonville
- Yuba City

FLORIDA
- Pensacola
- Panama City

GEORGIA
- Gainesville
- Valdosta

ILLINOIS
- Champaign

INDIANA
- Logansport
- South Bend

IOWA
- Burlington
- Carroll
- Waterloo

KANSAS
- Marysville
- Wichita

LOUISIANA
- Crowley

MAINE
- Presque Isle

MISSOURI
- Columbia
- Excelsior Springs
- St. Joseph

NEBRASKA
- Alliance
- Lincoln

NEVADA
- Carson City
- Las Vegas

NEW MEXICO
- Deming

NEW YORK
- Batavia
- Olean
- Syracuse

NORTH CAROLINA
- Elkin

NORTH DAKOTA
- Fargo

OREGON
- Eugene

SOUTH CAROLINA
- Bennettsville
- Charleston

TENNESSEE
- Dyersburg
- Martin
- Nashville

TEXAS
- Austin
- Houston
- Lufkin

UTAH
- Salt Lake City

WASHINGTON
- Yakima

Newly enlarged plant of Pepsi-Cola's franchised bottler in Fort Wayne, Ind.

BOTTLERS WHOSE PLANTS WERE ENLARGED

ALABAMA
- Montgomery

ARIZONA
- Flagstaff

CALIFORNIA
- Sacramento

COLORADO
- Denver

FLORIDA
- Perry

GEORGIA
- Bainbridge

ILLINOIS
- Alton
- Bloomington
- Quincy
- Taylorville

INDIANA
- Anderson
- Fort Wayne

KANSAS
- Emporia
- Marysville
- Oberlin
- Topeka

KENTUCKY
- Hazard
- Pikeville

MARYLAND
- Annapolis

MASSACHUSETTS
- Plymouth
- Worcester

MISSOURI
- Malden
- Memphis
- Perryville
- St. Louis

NEW YORK
- Auburn

NORTH CAROLINA
- Wilmington

NORTH DAKOTA
- Minot

OHIO
- Ashtabula
- Athens
- Canton
- Columbus
- Portsmouth

RHODE ISLAND
- West Warwick

SOUTH DAKOTA
- Mitchell
- Sioux Falls

VIRGINIA
- Norton

WISCONSIN
- Sheboygan

BOTTLERS MAKING SUBSTANTIAL PURCHASES OF NEW EQUIPMENT

ALABAMA
- Decatur
- Gadsden
- Montgomery

ARIZONA
- Flagstaff

CALIFORNIA
- Oreville
- Redding
- Sacramento
- San Bernardino
- Santa Rosa
- Tulare
- Yuba City

COLORADO
- Denver

DELAWARE
- Wilmington

FLORIDA
- Clearwater
- Miami
- Panama City
- Perry
- Tampa

GEORGIA
- Bainbridge
- Dublin
- Gainesville
- Valdosta

ILLINOIS
- Alton
- Bloomington
- Champaign
- Quincy
- Taylorville

INDIANA
- Anderson
- Fort Wayne

IOWA
- Burlington
- Carroll
- Des Moines
- Dubuque
- Waterloo

KANSAS
- Emporia
- Oberlin
- Topeka
- Wichita

KENTUCKY
- Fulton
- Hazard
- Pikeville

LOUISIANA
- Baton Rouge
- Crowley

MAINE
- Presque Isle

MASSACHUSETTS
- Plymouth
- Worcester

MISSISSIPPI
- Clarksdale

MISSOURI
- Columbia
- Excelsior Springs
- Malden
- Memphis
- Perryville
- St. Joseph
- St. Louis

MONTANA
- Anaconda
- Plentywood

NEBRASKA
- Alliance
- Lincoln

NEVADA
- Carson City
- Las Vegas

NEW MEXICO
- Deming

NEW YORK
- Auburn
- Batavia
- Olean
- Schenectady
- Syracuse

NORTH CAROLINA
- Salisbury

NORTH DAKOTA
- Fargo
- Minot

OHIO
- Ashtabula
- Athens
- Cleveland
- Portsmouth

OREGON
- Eugene
- Klamath Falls
- Medford
- Roseburg

RHODE ISLAND
- West Warwick

SOUTH CAROLINA
- Anderson
- Columbia
- Florence
- Greenville

SOUTH DAKOTA
- Mitchell
- Sioux Falls

TENNESSEE
- Dyersburg
- Martin
- Nashville

TEXAS
- Abilene
- Austin
- El Paso
- Fort Worth
- Houston
- Lubbock
- Lufkin

UTAH
- Salt Lake City

VIRGINIA
- Roanoke

WASHINGTON
- Bellingham
- Seattle
- Yakima

WEST VIRGINIA
- Logan

WISCONSIN
- Sheboygan

FOUNTAIN DEPARTMENT

With the end of sugar rationing in 1947, the sale and distribution of Pepsi-Cola at the soda fountains got under way. In 1948 approximately 25,000 pieces of fountain equipment were purchased by franchised bottlers for installation in the soda fountains in their territories. This is but the beginning of the program for covering the soda fountains across the nation. Considerably more work remains to be done in 1949 on fountain sales and distribution, and a special drive is being made to expand this business as rapidly as possible.

Three types of fountain equipment have been made available to the fountains. One is a jingle pump attachment which is put on existing syrup wells at the fountain, and plays the Pepsi-Cola jingle when the syrup is pumped out.

Another piece of equipment is the compact Premix dispenser which fits on the fountain and allows Pepsi-Cola to be drawn duly mixed into the glass.

The third piece of equipment is a Pepsi-Cola iced box which is placed on the counter of the fountain, and from which Pepsi-Cola can be served directly into the glass ready for the customer.

VENDING MACHINES

There are two kinds of vending machines—bottle machines, and machines which dispense a finished drink in a cup.

Bottle Vending:

The development of bottle vending will take time and resources to build, and your Company in the year 1948, when machines became freely available, opened up a special department to aid and guide its franchised bottlers in putting out bottle vending machines on a sound basis. This program is getting under way and will be developed further in the period ahead. Most of the machines put on the market by Pepsi-Cola bottlers will vend the new size bottle, the Pepsi-8.

Cup Vending:

The cup vending business is a relatively new development in the soft drink industry, and adds new outlets which heretofore were not available. In 1948, arrangements were made with the Automatic Canteen Company to merchandise and promote the sale of Pepsi-Cola through cup vending machines in cities and towns where they were set up to do machine vending business, not only in soft drinks, but also in such products as cigarettes, candy, etc. They have made some progress in putting out Pepsi-Cola cup vending machines in various markets, and your Company is co-operating with

them in order to promote expansion of this business. At the same time, some cup vending business is being developed by the Parent Company, and by its franchised bottlers as well. It is expected that between these programs, progress will be made in the development of this new type of business. It is necessary to point out to stockholders that because the cost of these machines is high and because they require a trained service organization, the cup vending program will be one of gradual development.

EVERVESS SPARKLING WATER

During 1948 the Company continued to sell Evervess Sparkling Water in many markets throughout the country, particularly in those markets where there is the greatest demand for sparkling water. It is not planned to make any sizable expenditures in connection with the development of Evervess, and this part of your Company's business will be built up gradually. For this reason, the net results of the Evervess business will not for the time being constitute an important factor in the over-all profit picture.

Enlarged Pepsi-Cola plant at Manila, P. I.

CENTRAL ESPANA

The Company's sugar property in Matanzas Province, Cuba was in full operation in the year 1948, and continued to make raw and refined sugar which was sold through the usual trade channels. The profits of this subsidiary are included in the consolidated statement contained in this report. During the year it produced about 90,000 tons of sugar, and it is being maintained in good physical condition. As pointed out in previous annual reports, this plantation consists of about 77,000 acres of sugar land, a sugar mill, refinery, warehouse, and storage facilities, as well as sugar tanks, railroad system, engines, etc.; approximately 30,000 persons live on this property.

DEVELOPMENT OF FOREIGN BUSINESS

New Pepsi-Cola plant in Capetown, South Africa.

The Export Department of the Pepsi-Cola business showed continued marked expansion in the year 1948. At the end of that year, there were 56 franchised bottlers in foreign countries, compared with 49 at the close of the previous year. New plants were put into operation, and many of the existing plants showed very substantial growth. A good start has been made in the development of the worldwide market, but much still remains to be done.

The Export Department has great opportunities for further expansion, and bottlers in new areas are being franchised as soon as the areas are found to be sufficiently stable, and financial and business conditions warrant their development.

During the year 1948, newly franchised bottlers began operations in Hermosillo and Monterrey, Mexico; and Capetown and Johannesburg, South Africa. In 1949, operations have already begun or will begin shortly at Cairo, Egypt; Casablanca, French Morocco; Martinique, French West Indies; Dharan, Saudi Arabia; and San Cristobal, Venezuela.

In addition, bottlers previously established in foreign countries constructed five new plants during 1948, added to another, and installed substantial amounts of new equipment in thirteen other plants.

The Company's operations in England—Pepsi-Cola, Ltd.—for the year 1948 showed a small profit as compared with a small loss in the previous year. The bottling operations of the Cuban wholly-owned subsidiary encountered labor difficulties during part of 1948. The plant was closed for a time until matters were amicably adjusted, and the operation showed a loss for the year.

Your Company's wholly-owned subsidiary, Pepsi-Cola Company of Canada, Ltd., operated in the year 1948 under conditions somewhat similar to those in the United States, with the decontrolling of sugar taking place late in 1947. The number of franchised bottlers in Canada at the end of 1948 was 84, compared with 79 at the close of the previous year.

For the year 1948 the actual sales of Pepsi-Cola by the Export Department, exclusive of Great Britain and Canada, showed an increase of approximately 33% over the previous year.

ADDITIONS TO MANAGEMENT

We wish to advise the stockholders that as this letter goes to press, Mr. Alfred N. Steele has joined the Pepsi-Cola Company as First Vice-President in charge of sales and operations in the United States, and has also been made a Director of the Company. Mr. Steele has for many years been connected with The Coca-Cola Company where he was most recently Vice-President in charge of all branches of domestic sales and bottlers' relations and training. In addition to his experience in the soft drink industry, Mr. Steele was for seven years Director of Advertising for the Standard Oil Company of Indiana. His work in these capacities has stamped him as one of the outstanding men in the soft drink industry with a background of years of experience and achievement.

Since the first of the year, Mr. John Rieger, formerly General Sales Manager of the White Rock Corporation, and previously Assistant Sales Manager of The Coca-Cola Bottling Company of New York, has been put in charge of all domestic Company-owned bottling plants. Mr. Herbert L. Barnet, connected for many years with the Company's legal affairs, has been put in charge of special promotions, concession business, and other activities.

THE PERIOD AHEAD

Your Company and its franchised bottlers, working closely together, have commenced the year 1949 with a hard-hitting program. The big 12-ounce economy-size bottle, serving two glasses, will be pushed vigorously for the home trade. Our newly developed 8-ounce bottle, providing one long drink for on-premise consumption, will be pushed in many markets, particularly for the cooler trade, bottle vending machines,

and concession businesses of all kinds. As a result of the introduction of this new size, many outlets are now opened to Pepsi-Cola which heretofore have not been available.

Experienced executives of proven ability have been added to our management, and our organization has been streamlined for the job ahead. Our merchandising and advertising programs are constantly being revamped to meet changing conditions. All possible economies that will not reduce the effectiveness of our efforts, have been instituted. The financial position of your Company has been strengthened, so that it is in a position to meet any contingencies that may arise.

It has been the history of many sound well-managed businesses, that the greatest progress has been made during periods of stress and strain; and it is my sincere belief that the period through which your Company has been passing, will similarly prove to have laid the foundations for its growth and prosperity in the years to come.

Respectfully submitted,

Walter S. Mack, Jr.

President

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

ACCOUNTANTS' CERTIFICATE

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its subsidiaries as of December 31, 1948 and the related summary of consolidated income and earned surplus for the year then ended. As to the companies other than the Canadian subsidiary our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary amount to approximately 6% of the consolidated total, and its gross profit on sales and net income for the year are approximately 4% and 5%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summary of consolidated income and earned surplus, with their notes, present fairly the financial position of the companies at December 31, 1948, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,
March 18, 1949

PEPSI-COLA COMPANY

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1948

ASSETS

Current Assets:		
Cash on hand and demand deposits		$ 6,535,400
United States and Canadian Government obligations (market value, $2,470,000)		2,471,789
Notes and accounts receivable:		
Notes receivable	$ 157,658	
Accounts receivable:		
Customers	905,090	
Other	344,594	
Total	$ 1,407,342	
Less reserve for doubtful receivables	96,427	1,310,915
Inventories:		
Finished and in-process	$ 1,780,231	
Raw materials and supplies	4,573,501	6,353,732
Total current assets		$16,671,836
Miscellaneous Assets:		
Notes and accounts receivable—not current	$ 678,040	
Machinery held for resale	401,171	
Other	262,851	1,342,062
Property, Plant, and Equipment:		
Land, buildings, equipment, leasehold improvements, etc. — at cost (less reserve for depreciation and amortization, $5,259,031)	$10,862,598	
Bottles and cases on hand and with trade (at estimated depreciated values)	2,282,787	13,145,385
Deferred Debit Items:		
Prepaid insurance, taxes, etc.	$ 549,806	
Advertising materials and expenses	367,396	
Expenses applicable to 1949 sugar crop in Cuba	692,143	
Other	147,258	1,756,603
Trade-marks, Formulas and Goodwill (at nominal value)		1
Total		$32,915,887

PEPSI-COLA COMPANY

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET, DECEMBER 31, 1948

LIABILITIES

Current Liabilities:			
Loan payable to bank		$ 950,000	
Accounts payable and accrued		2,431,701	
Accrued taxes—estimated:			
United States and foreign income taxes	$2,334,147		
Less United States Treasury tax notes	1,001,600	1,332,547	
Other taxes		537,447	
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)			$ 5,251,695
Customers' Deposits on Bottles and Cases			926,261
Note Payable to Insurance Company, 3%, Due June 1, 1963 (payable $337,000 on June 1, 1951 and $333,000 annually thereafter)			5,000,000
Deferred Liability—Liens (Censos) on certain properties in Cuba			131,447
Capital Stock and Surplus:			
Capital stock — Authorized 7,500,000 shares of 33⅓¢ each; issued and outstanding 5,752,659.57 shares (including 654.57 shares in treasury—see below)		$ 1,917,553	
Capital surplus		5,199,550	
Earned surplus (since August 1, 1939)		14,500,089	
Total		$21,617,192	
Less treasury stock (654.57 shares, at cost)		10,708	21,606,484

The accompanying Notes to Financial Statements are an integral part of this balance sheet.

Total	$32,915,887

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PEPSI-COLA COMPANY AND SUBSIDIARIES

SUMMARY OF CONSOLIDATED INCOME AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1948

Gross Profit on Sales		$24,990,164
Advertising, Selling, Shipping, General and Administrative Expenses		19,180,743
Profit from Operations		$ 5,809,421
Other Income		378,999
Gross Income		$ 6,188,420
Income Charges		1,076,651
Net Income Before Deducting Provisions for Income Taxes		$ 5,111,769
Provisions for Income Taxes—Estimated:		
United States	$ 1,380,000	
Foreign	578,952	1,958,952
Net Income		$ 3,152,817
Earned Surplus, January 1, 1948		13,791,992
Total		$16,944,809
Dividends Paid—42½ cents a share (paid as follows: March 15, 17½ cents; June 15, 12½ cents; September 15, 12½ cents)		2,444,720
Earned Surplus, December 31, 1948 (since August 1, 1939)		$14,500,089

The accompanying Notes to Financial Statements are an integral part of this summary.

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PEPSI-COLA COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1948

1. The inventories are stated at cost, representing average cost except for certain ingredients for which cost is determined on the basis of first-in, first-out. Such cost was not in excess of market at December 31, 1948. LIFO

2. Foreign subsidiaries:

   The current assets and liabilities, total assets and liabilities, earned surplus, and net income (for 1948) of foreign subsidiaries included in the consolidated financial statements at December 31, 1948 are as follows:

	British subsidiary	*Canadian subsidiary*	*Cuban subsidiaries*
Current assets	$ 182,765	$1,351,564	$2,264,217
Current liabilities	19,384	213,927	2,053,993
Total assets	403,922	1,817,513	8,828,691
Total liabilities	60,871	213,927	2,262,527
Earned surplus (deficit)	(108,756)	1,731,892	4,960,994
Net income for year	30,051	163,283	1,038,948

The assets, liabilities, income and expenses of these subsidiaries are included in the consolidated financial statements on the following basis: the assets (other than property, plant, and equipment) and liabilities and income and expenses (except for depreciation) of the British and Canadian subsidiaries have been converted into United States dollars at the official rates of exchange at December 31, 1948, and those of the Cuban subsidiaries at the current rate of exchange at that date; property, plant, and equipment have been included at amounts which reflect their United States dollar equivalent at the time of acquisition or origin. The provision for depreciation has been converted for all of the companies at rates prevailing at time of acquisition of the related assets.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

The withdrawal of funds of the British and Canadian subsidiaries is subject to presently prevailing foreign exchange restrictions.

[Continued on following page]

Notes to Financial Statements—Continued

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3. The Federal income tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1944; the tax returns for subsequent years have not yet been examined.

   The Company previously filed an application for an increase in its excess-profits credit under relief provisions (Section 722) of the Internal Revenue Code. The examining agent's office of the Treasury Department has proposed to reject the claim but the Company has protested this proposal, which protest is now before the Field Committee for consideration. Since it is impossible to predict whether the Company will obtain any relief in this respect, no effect has been given to this claim in the financial statements.

4. At December 31, 1948 there were options outstanding for the purchase of 60,740 shares of the authorized and unissued capital stock of the Company. These included options for 15,000 shares granted to Walter S. Mack, Jr., President of the Company, purchasable at \$$16\frac{7}{8}$ per share and expiring May 26, 1949, and 45,740 at \$$30\frac{3}{4}$ per share granted to other officers and employees, exercisable in various amounts and at various times not later than June 30, 1955. No options were exercised during 1948.

5. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1948 approximately $2,730,000 of earned surplus was free of such restrictions.

6. At December 31, 1948 the Company had a contingent liability as guarantor of bank loans aggregating $213,500 to various franchised bottlers, and had deposited $100,000 (included in the balance sheet in "Miscellaneous Assets—Other") as security for other bank loans to bottlers aggregating $178,333.

7. The provision for depreciation and amortization for 1948, charged to manufacturing and expense accounts, amounted to $943,031.

DIRECTORS

James W. Carkner	Herbert M. Singer
Walter W. Colpitts	Alfred N. Steele
Mortimer Hays	Harral S. Tenney
Walter S. Mack, Jr.	Albert E. Winger

EXECUTIVE COMMITTEE

Walter S. Mack, Jr., *Chairman*	Herbert M. Singer
Mortimer Hays	Alfred N. Steele

Harral S. Tenney

OFFICERS

Walter S. Mack, Jr.	*President*
Alfred N. Steele	*First Vice-President*
William B. Forsythe	*Vice-President*
Talbot O. Freeman	*Vice-President*
Albert J. Goetz	*Vice-President*
Alfred B. Hoppe	*Vice-President*
Edward A. LeRoy, Jr.	*Vice-President*
George M. O'Neil	*Vice-President*
Richard J. Ritchie	*Vice-President*
Milward W. Martin	*Secretary*
Joseph A. Murphy	*Treasurer*
Thomas E. O'Callaghan	*Asst. Secretary*
W. W. Masters	*Asst. Treasurer*
Louis E. Nufer	*Asst. Treasurer*

Asst. Vice-Presidents

Herbert L. Barnet	Edmund Loughlin
Richard A. Buck	Ruth R. Maier
Thomas Elmezzi	Louis R. Ripley

A. Allen Thomson

AUDITORS

Haskins & Sells
Certified Public Accountants

TRANSFER AGENTS

The Marine Midland Trust Company of New York
New York, N. Y.

The First National Bank of Jersey City
Jersey City, N. J.

REGISTRAR

The Chase National Bank of the City of New York
New York, N. Y.

Pepsi-Cola
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